**Logo

Description automatically generated**

MBF

**G24438AC**

INTRODUCTION TO ALTERNATIVE FINANCE

**Exam – 1h30**

*Please explain all your answers, there will be no credit without explanation.*

*Please be short and precise in your arguments.*

*The maximum number of points for this exam is 100 points*

**Good Luck!**

**Small questions** *(32 points)*

1. (0.5 page) Explain the main functions of the financial system and how to apply them to sustainability.
2. (0.5 page) Discuss the link between fiduciary duty and sustainable finance.
3. (0.5 page) Explain the difference between market interest and social discount rates.
4. (0.5 page) Discuss the pros and cons of the exit and voice strategies.

**Big question- Prosocial Investors and Green Project** (18 points)

Consider the case of a prosocial investor that wants to invest in a socially responsible company.

1. Set the maximization problem of this prosocial investor. Describe one sustainable investment strategy that would solve this social maximization problem.

2. Assume that the company has decided to run a green project and needs to look for another prosocial investor. The company can either go for a debt investor or an equity investor. Explain with which trade-off the company will have to deal.

**Big question-Green investments and financial performance** *(50 points)*

Assume that you have access to the database of all bonds issued by French companies. You wish to analyze the effect of green bonds on firms’ financial performance.

1. Explain the endogeneity problem you may have when you want to answer this question.

Recall: endogeneity means that your analysis will not properly capture how causation works in the real world.

2. Describe how you can solve this problem, given that your database is as detailed and broad as needed.

3. Consider one of the sustainable investing strategies discussed in class. Explain the difficulties in integrating ESG factors for the three (fundamental, quant, passive) equity strategies.

4. Why can climate funds reduce a green project's "perceived" risk by taking a subordinated debt and encouraging private investors to back it?